

**Monroe County Water District**  
**Financial Statements**  
**December 31, 2018 and 2017**



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## INDEPENDENT AUDITOR'S REPORT

Monroe County Water District  
Tompkinsville, Kentucky

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of the Monroe County Water District, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Monroe County Water District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, of the Monroe County Water District, as of December 31, 2018, and 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Monroe County Water District's basic financial statements. The budgetary comparison information, is presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The budgetary comparison information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2019, on our consideration of the Monroe County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Monroe County Water District's internal control over financial reporting and compliance.

*Campbell, Myers & Rutledge, PLLC*

Certified Public Accountants  
Glasgow, Kentucky

April 26, 2019

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the Monroe County Water District, we offer readers of the District's financial statements this narrative overview of the financial activities of the District for the fiscal years ending December 31, 2018 and 2017. We encourage readers to consider the information presented here in conjunction with the District's financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

### **Financial Highlights**

For the year ending December 31, 2018, total operating and non-operating revenues (including capital contributions) totaled \$2,265,783. This represents a 47% decrease in revenues from the prior year. This change was primarily due to a decrease in grant revenues and KIA loan forgiveness.

Total operating and non-operating expenses amounted to \$2,374,227 an increase of \$256,950 from the prior year. This increase was primarily the result of an increase in depreciation expense, due to the water treatment plant being placed in service during the year.

Total assets increased by \$1,325,353, and total liabilities increased by \$1,433,797. These changes resulted in a decrease in net position of \$108,444.

### **Overview of the Financial Statements**

This report consists of this Management's Discussion and Analysis report, the Independent Auditor's Report, Financial Statements and Supplementary Information. The Financial Statements include notes which explain in detail some of the information included in the Financial Statements.

### **Required Financial Statements**

The financial statements of Monroe County Water District report information of Monroe County Water District using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Position includes all of Monroe County Water District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Monroe County Water District creditors (liabilities). It also provides the basis for evaluation of the capital structure of Monroe County Water District and assessing the liquidity and financial flexibility of Monroe County Water District.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of Monroe County Water District's operations over the past year and can be used to determine whether Monroe County Water District has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as, where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

**Monroe County Water District  
Summary of Net Position  
December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Assets</b>		
Total Current Assets	\$ 1,758,506	\$ 1,653,394
Total Restricted Assets	521,651	367,084
Net Capital Assets	<u>25,687,024</u>	<u>24,621,350</u>
<b>Total Assets</b>	<b><u>\$ 27,967,181</u></b>	<b><u>\$ 26,641,828</u></b>
<b>Liabilities</b>		
Total Current Liabilities	\$ 426,532	\$ 1,367,845
Total Liabilities Payable from Restricted Assets	165,700	11,812
Total Long-term Liabilities	<u>14,754,116</u>	<u>12,532,894</u>
<b>Total Liabilities</b>	<b><u>\$ 15,346,348</u></b>	<b><u>\$ 13,912,551</u></b>
<b>Net Position</b>		
Invested in capital assets, net of related debt	\$ 10,810,406	\$ 12,081,549
Restricted for equipment replacement	357,572	354,153
Restricted for debt retirement	120,881	8,026
Unrestricted	<u>1,331,974</u>	<u>285,549</u>
<b>Total Net Position</b>	<b><u>\$ 12,620,833</u></b>	<b><u>\$ 12,729,277</u></b>

The largest portion (86%) of the District's net position reflects its investment in capital assets, less any related debt used to acquire those assets still outstanding. This represents a 10% decrease from the prior year.

Restricted net position (4%) represent resources that are subject to external restrictions on how they may be used.

The balance (10%) of unrestricted net position may be used to meet the District's ongoing obligations to citizens, consumers and creditors.

**Monroe County Water District  
Summary of Changes in Net Position  
For the Year Ended December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Total operating revenues	\$ 2,206,358	\$ 1,919,473
Total operating expenses	<u>2,221,910</u>	<u>2,021,439</u>
Operating Income	(15,552)	(101,966)
Total non-operating revenue (expenses)	<u>(120,932)</u>	<u>(65,703)</u>
Income before capital contributions	(136,484)	(167,669)
Capital contributions	<u>28,040</u>	<u>2,333,345</u>
Increase (decrease) in net position	(108,444)	2,165,676
Net position, beginning of year	<u>12,729,277</u>	<u>10,563,601</u>
Net position, end of year	<u>\$ 12,620,833</u>	<u>\$ 12,729,277</u>

Net position decreased by \$108,444 from the prior year.

Capital Asset Changes

At December 31, 2018, the District had invested \$25,687,024 in capital assets net of accumulated depreciation. This amount represents a net increase of \$1,065,674 from the previous year. This increase is the result of having more capital asset additions than depreciation expense.

The Monroe County Water District completed projects during 2018, including 4,700 feet of water line extensions and the relocation of water lines for the East Tompkinsville By-Pass KY 163 South Approach project funded by the Kentucky Department of Transportation. There were 31 new water connections set for service during the year of 2018. The Monroe County Water District has a very active meter testing program, having tested 315 meters during 2018.

Monroe County Water District has worked diligently on the Water Treatment Plant Project since 2006. The total project cost is \$16,015,425 which consists of the treatment plant, intake, sedimentation basin, transmission lines, storage tank, land acquisition, engineering and administration. Preliminary design work was completed in 2012. In 2017 construction of a 600,000-gallon elevated storage tank and installation of 67,000 feet of transmission lines, a 2MGD water treatment plant and intake began. Completion and operation of these projects started on May 4, 2018. The Division of Water required a sedimentation basin to be constructed for redundancy. The phase of this project was completed in December 2018. This has been a major project for Monroe County Water District, but the need for upgrading and maintenance are anticipated to help improve the distribution system and to better serve our customers.



### **Budgetary Highlights**

The Monroe County Water District adopts an annual operating budget after careful considerations of prior year and anticipated current year operations. The operating budget includes proposed expenses and the means to finance them. The District's operating budget remains in effect the entire year and is not revised. A budget comparison and analysis is presented on page 19 of this report.

### **Debt Administration**

At December 31, 2018, the District had \$14,876,618 long term debt outstanding, an increase of \$2,336,817 from the prior year's balance of \$12,539,801. The District incurred \$150,815 in interest expense associated with long term debt, an increase of \$55,915 from prior year.

### **Request for Information**

This financial report is designed to provide our customers and creditors with a general overview of Monroe County Water District's finances and to demonstrate Monroe County Water District's accountability for the funds it receives. If you have any questions about this report or need any additional information, please contact the Monroe County Water District at 205 Capp Harlan Road, Tompkinsville, Kentucky 42167, or by phone (270) 487-8131.

**MONROE COUNTY WATER DISTRICT**  
**Statements of Net Position**  
**December 31, 2018 and 2017**

<b>Assets</b>	<u>2018</u>	<u>2017</u>
<b>Current Assets</b>		
Cash	\$ 1,398,110	\$ 1,212,271
Accounts receivable	251,877	256,272
Other receivables	-	71,989
Inventory	108,519	112,862
Total Current Assets	<u>1,758,506</u>	<u>1,653,394</u>
<b>Non-current Assets</b>		
Restricted Assets		
Cash - Depreciation fund	357,572	354,153
Cash - Bond and interest redemption fund	164,079	12,931
Total Restricted Assets	<u>521,651</u>	<u>367,084</u>
Capital Assets		
Land and land rights	249,842	249,842
Utility plant in service	30,408,387	13,155,699
Furniture and equipment	1,208,054	1,203,957
Construction in progress	-	15,580,007
Accumulated depreciation and amortization	(6,179,259)	(5,568,155)
Net Capital Assets	<u>25,687,024</u>	<u>24,621,350</u>
Total Non-current Assets	<u>26,208,675</u>	<u>24,988,434</u>
 Total Assets	 <u>\$ 27,967,181</u>	 <u>\$ 26,641,828</u>

**MONROE COUNTY WATER DISTRICT**  
**Statements of Net Position, Concluded**  
**December 31, 2018 and 2017**

<b>Liabilities</b>	<u>2018</u>	<u>2017</u>
<b>Current Liabilities</b>		
Accounts payable	\$ 59,710	\$ 192,425
Construction accounts payable	163,279	944,774
Customer deposits	62,356	60,598
Accrued liabilities	141,187	170,048
Total Current Liabilities	426,532	1,367,845
<b>Liabilities Payable from Restricted Assets</b>		
Current maturities of long-term debt	122,502	6,907
Accrued interest	43,198	4,905
Total Liabilities Payable from Restricted Assets	165,700	11,812
<b>Long-term Liabilities</b>		
Bonds, noncurrent portion, net of discount	2,084,831	2,204,424
KIA loan	12,669,285	10,328,470
Total Long-term Liabilities	14,754,116	12,532,894
Total Liabilities	15,346,348	13,912,551
<b>Net Position</b>		
<b>Net Position</b>		
Invested in capital assets, net of related debt	10,810,406	12,081,549
Restricted for equipment replacement	357,572	354,153
Restricted for debt retirement	120,881	8,026
Unrestricted	1,331,974	285,549
Total Net Position	\$ 12,620,833	\$ 12,729,277

The accompanying notes are an integral part of the financial statements.

**MONROE COUNTY WATER DISTRICT**  
**Statements of Revenues, Expenses and Change in Net Position**  
**For the Years Ended December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Operating revenues:</b>		
Residential water sales	\$ 2,027,884	\$ 1,772,048
Commerical water sales	84,092	79,053
Penalty collections	29,548	27,805
Miscellaneous	64,834	40,567
Total operating revenues	<u>2,206,358</u>	<u>1,919,473</u>
<b>Operating expenses:</b>		
Water purchases	271,531	706,064
Employees' salaries and wages	518,042	442,338
Employees' pensions and benefits	182,114	141,334
Utilities	141,240	53,357
Repairs and maintenance	66,324	40,839
Chemicals	91,525	-
Water analysis fees	12,694	7,579
Meter readers	47,567	40,180
Office expense	72,134	49,429
Transportation expenses	21,854	21,160
Insurance	62,808	37,007
Commissioners' fees	6,000	6,000
Payroll tax expense	41,226	33,248
Telephone	11,776	8,396
Depreciation	611,104	317,705
PSC tax assessment	3,839	3,603
Meter deposit interest expense	405	226
Bad debt expense	7,818	6,490
Professional fees	27,905	80,172
Miscellaneous	24,004	26,312
Total operating expenses	<u>2,221,910</u>	<u>2,021,439</u>
Operating income	<u>(15,552)</u>	<u>(101,966)</u>
<b>Non-operating revenue (expenses):</b>		
Rental income	20,160	20,160
Interest income	11,225	9,975
Amortization of bond discount	(1,502)	(938)
Interest expense on bonds	(150,815)	(94,900)
Total non-operating revenue (expenses)	<u>(120,932)</u>	<u>(65,703)</u>
Income/(loss) before capital contributions	<u>(136,484)</u>	<u>(167,669)</u>
<b>Capital contributions</b>		
Grant proceeds	2,000	597,880
KIA loan forgiveness	-	1,697,001
Tap fees	26,040	38,464
Total capital contributions	<u>28,040</u>	<u>2,333,345</u>
Change in net position	(108,444)	2,165,676
<b>Net position:</b>		
Beginning of year	<u>12,729,277</u>	<u>10,563,601</u>
End of year	<u>\$ 12,620,833</u>	<u>\$ 12,729,277</u>

The accompanying notes are an integral part of the financial statements.

**MONROE COUNTY WATER DISTRICT**  
**Statements of Cash Flows**  
**For the Years Ended December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Cash flows from operating activities:</b>		
Cash receipts from customers	\$ 2,212,511	\$ 1,891,003
Cash payments to suppliers for goods and services	(1,033,023)	(1,081,563)
Cash payments to employees for services	<u>(735,017)</u>	<u>(565,337)</u>
Net cash provided (used) by operating activities	<u>444,471</u>	<u>244,103</u>
<b>Cash flows from capital and related financing activities:</b>		
Principal paid on long-term debt	(5,500)	(2,334,000)
Interest paid on long-term debt	(112,522)	(146,984)
Additions to capital assets	(2,458,272)	(8,248,969)
Proceeds from issuance of debt	2,340,815	7,989,034
Capital contributions	<u>100,029</u>	<u>2,261,356</u>
Net cash provided (used) in financing activities	<u>(135,450)</u>	<u>(479,563)</u>
<b>Cash flows from investing activities:</b>		
Rental income	20,160	20,160
Interest income	<u>11,225</u>	<u>9,975</u>
Net cash provided by (used) in investing activities	<u>31,385</u>	<u>30,135</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	340,406	(205,325)
Cash and cash equivalents, beginning of year	<u>1,579,355</u>	<u>1,784,680</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 1,919,761</u>	<u>\$ 1,579,355</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ (15,552)	\$ (101,966)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	611,104	317,705
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	4,395	(30,000)
(Increase) decrease in inventory	4,343	4,244
Increase (decrease) in accounts payable	(132,716)	28,255
Increase (decrease) in customer deposits	1,758	1,530
Increase (decrease) in accrued expenses	<u>(28,861)</u>	<u>24,335</u>
Net cash provided (used) by operating activities	<u>\$ 444,471</u>	<u>\$ 244,103</u>

The accompanying notes are an integral part of the financial statements.

**MONROE COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Note 1 – Description of Entity and Summary of Significant Accounting Policies**

Organization

The Monroe County Water District was organized in 1975 under KRS 74.010 to provide water service to the residents of Monroe County, Kentucky. The District's commissioners are appointed by the Monroe County Judge-Executive.

The District grants credit to customers, substantially all of whom are local residents and commercial businesses in Monroe County, Kentucky.

Measurement Focus and Basis of Accounting

The term *measurement focus* is used to denote what is being measured and reported in the District's financial statements. The District is accounted for on the flow of economic resources measurement focus. Under this measurement focus, all assets and all liabilities associated with the operations are included in the Statement of Net Position.

The term *basis of accounting* is used to determine when a transaction or event is recognized on the District's financial statements. The District uses the full accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

Financial Statement Presentation

The District has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net position, revenues and expenses. Enterprise Funds account for activities; (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity, (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues, or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

On January 1, 2004, the District adopted the provisions of Governmental Accounting Standards Board (GASB) No. 34 "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.*" GASB 34 established standards for external financial reporting for all state and local governmental entities which includes a statement of net position, a statement of activities and changes in net position and a statement of cash flows. It requires the classification of net position into three components: (i) invested in capital assets, net of related debt, (ii) restricted, and (iii) unrestricted.

Use of Restricted Funds

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

**MONROE COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Note 1 – Description of Entity and Summary of Significant Accounting Policies, Continued**

These classifications are defined as follows:

- *Invested in capital assets, net of related debt* - This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- *Restricted* - This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted net position* - This component of net position consists of net position that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Receivables

The District uses the direct write-off method to account for bad debts. No allowance for bad debts has been provided, as no material write-offs are expected for receivables as of December 31, 2018 and 2017. The direct write-off method does not significantly depart from generally accepted accounting principles.

Capital Assets

The utility plant in service is stated at cost. The cost of additions to the utility plant and major replacements of retired units of property is capitalized. Cost includes direct labor, outside services, materials and transportation, employee fringe benefits, overhead, and interest on funds borrowed to finance construction. The cost and accumulated depreciation of property sold or retired is deducted from capital assets, and any profit or loss resulting from the disposal is credited or charged in the nonoperating section of the statement of revenues, expenses and changes in net position. The cost of current repairs, maintenance, and minor replacements is charged to expense as incurred. Depreciation has been provided over estimated useful lives of the assets using the straight-line method. Depreciation expense for the years ending December 31, 2018 and 2017 was \$611,104 and \$317,705, respectively.

During 2018, the District extended the estimated depreciable lives of certain capital assets to more accurately reflect Public Service Commission approved rates.

The estimated useful lives of capital assets are as follows:

Utility plant	20-63 years
Equipment	7-13 years
Other	23 years

Cash and Investments

The District considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. Investments are reported at fair market value.

Long-Term Obligations

Long-term debt and other obligations are reported as liabilities on the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds.

**MONROE COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Note 1 – Description of Entity and Summary of Significant Accounting Policies, Continued**

Operating Revenues and Expenses

Operating revenues consist of those revenues that result from the ongoing principal operations of the District. Operating expenses consist primarily of charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from nonexchange transactions.

Capital Contributions

Transmission and distribution system assets contributed to the District by installers are capitalized at the installers' costs and recorded as capital contributions when received. Also included in capital contributions are various grants received for infrastructure and payments received from customers for tap fees.

Income Taxes

The District is exempt from federal and state income taxes.

Extraordinary and Special Items

Extraordinary items are transactions or other events that are both unusual in nature and infrequent in occurrence. Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence. If such items exist during the reporting period, they are reported separately in the statement of revenues, expenses and changes in net position.

Bond and Interest Redemption Fund

The ordinances authorizing the bond issues require monthly deposits of one-twelfth of the annual bond principal requirement and one-sixth of the semi-annual interest requirement. For the years ending December 31, 2018 and 2017, the District had complied with this requirement.

Inventory

Inventory is valued at cost using the first in, first out method. Inventory in the Proprietary Funds consists of expendable supplies held for future consumption or capitalization. The cost is recorded as an expense or capital addition as inventory items are consumed.

Use of Estimates

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Compensated Absences

Accumulated unpaid vacation and sick pay amounts are accrued when benefits vest to employees and the unpaid liability is reflected in accrued liabilities.

Depreciation Fund

The ordinances authorizing the various bond issues of the District require monthly transfers into a depreciation fund until the maximum requirement of \$209,520 is reached. These funds can be used for capital improvements, expansions and extraordinary repairs. For the years ended December 31, 2018 and 2017, the District had a balance in excess of the required amount in the depreciation fund.



**MONROE COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Note 1 – Description of Entity and Summary of Significant Accounting Policies, Concluded**

Reclassifications

Certain amounts in 2017 have been reclassified to conform with the 2018 presentation.

**Note 2 – Capital Assets**

Capital asset activity for the years ended December 31, 2018 and 2017, was as follows:

	Balance 01/01/18	Additions	Deletions	Balance 12/31/18
<i><u>Capital Assets not being depreciated</u></i>				
Land and Rights	\$ 249,842	\$ -	\$ -	\$ 249,842
Construction In Progress	15,580,007	1,629,843	(17,209,850)	-
Total Non-Depreciable Capital Assets	<u>15,829,849</u>	<u>1,629,843</u>	<u>(17,209,850)</u>	<u>249,842</u>
<i><u>Capital Assets being depreciated</u></i>				
Structures and Improvements	427,778	-	-	427,778
Pumping Equipment	526,766	4,097	-	530,863
Distribution Reservoirs	2,367,594	1,059,993	-	3,427,587
Transmission and Distribution Mains	9,203,619	3,618,953	-	12,822,572
Services	120,774	-	-	120,774
Meters and Installations	1,035,934	38,187	-	1,074,121
Other Plant	32,370	-	-	32,370
Furniture and Equipment	98,768	-	-	98,768
Transportation Equipment	215,087	-	-	215,087
Power Operated Equipment	330,966	-	-	330,966
Source of Supply-Structures	-	469,428	-	469,428
Source of Supply-Intakes	-	1,721,484	-	1,721,484
Pumping Plant-Structures	-	442,646	-	442,646
Pumping Plant-Equipment	-	2,520,447	-	2,520,447
Water Treatment Plant-Structures	-	2,730,981	-	2,730,981
Water Treatment Plant-Equipment	-	4,650,569	-	4,650,569
Total Depreciable Capital Assets	<u>14,359,656</u>	<u>17,256,785</u>	<u>-</u>	<u>31,616,441</u>
Less: Accumulated Depreciation and Amortization	<u>5,568,155</u>	<u>611,104</u>	<u>-</u>	<u>6,179,259</u>
Total Net Capital Assets	<u>\$ 24,621,350</u>			<u>\$ 25,687,024</u>

**MONROE COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Note 2 – Capital Assets, Concluded**

	Balance 01/01/17	Additions	Deletions	Balance 12/31/17
<i><u>Capital Assets not being depreciated</u></i>				
Land and Rights	\$ 249,842	\$ -	\$ -	\$ 249,842
Construction In Progress	8,060,803	8,012,856	(493,652)	15,580,007
Total Non-Depreciable Capital Assets	8,310,645	8,012,856	(493,652)	15,829,849
<i><u>Capital Assets being depreciated</u></i>				
Structures and Improvements	427,778	-	-	427,778
Pumping Equipment	494,585	32,181	-	526,766
Distribution Reservoirs	2,367,594	-	-	2,367,594
Transmission and Distribution Mains	8,711,692	491,927	-	9,203,619
Services	120,774	-	-	120,774
Meters and Installations	977,360	64,994	(6,420)	1,035,934
Other Plant	32,370	-	-	32,370
Furniture and Equipment	98,768	-	-	98,768
Transportation Equipment	215,087	-	-	215,087
Power Operated Equipment	330,966	-	-	330,966
Total Depreciable Capital Assets	13,776,974	589,102	(6,420)	14,359,656
Less: Accumulated Depreciation and Amortization	5,256,870	317,705	(6,420)	5,568,155
Total Net Capital Assets	\$ 16,830,749			\$ 24,621,350

**Note 3 – Long-Term Debt**

Long-term debt consists of the following at December 31, 2018 and 2017:

	2018	2017
Bonds payable:		
Series 1999 Water Revenue Bonds issued through the Rural Development of the USDA in the amount of \$270,000; due in annual installments on January 1 ranging from \$2,500 to \$15,500 through January 2038; interest rate of 4.75% due semi-annually on January 1 and July 1.	\$ 201,000	\$ 206,500
Series 2017 Water Revenue Bonds issued through KACo in the amount of \$2,170,000; due in annual installments on January 1 ranging from \$130,000 to \$20,000 through January 2042; interest rate of 3.37% due semi-annually on January 1 and July 1.	2,040,000	2,040,000
Total bonds	\$ 2,241,000	\$ 2,246,500

**MONROE COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Note 3 – Long-Term Debt, Continued**

Principal and interest maturities of long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 121,000	\$ 73,449	\$ 194,449
2020	121,500	70,564	192,064
2021	126,500	67,618	194,118
2022	132,000	63,923	195,923
2023	132,500	59,516	192,016
2024-2028	713,000	227,095	940,095
2029-2033	540,000	114,422	654,422
2034-2038	274,500	46,109	320,609
2039-2042	80,000	8,100	88,100
	<u>\$ 2,241,000</u>	<u>\$ 730,796</u>	<u>\$ 2,971,796</u>

Long-term debt activities for the years ended December 31, 2018 and 2017 are as follows:

	<u>Balance 01/01/18</u>	<u>Additions</u>	<u>Debt Payments and Reductions</u>	<u>Balance 12/31/18</u>	<u>Amount Due within One Year</u>
Series 1999	\$ 206,500	\$ -	\$ (5,500)	\$ 201,000	\$ 6,000
Series 2017	2,040,000	-	-	2,040,000	115,000
	2,246,500	-	(5,500)	2,241,000	121,000
Bond discount	(35,169)	-	1,502	(33,667)	1,502
Bonds, net of discount	<u>\$ 2,211,331</u>	<u>\$ -</u>	<u>\$ (3,998)</u>	<u>\$ 2,207,333</u>	<u>\$ 122,502</u>

	<u>Balance 01/01/17</u>	<u>Additions</u>	<u>Debt Payments and Reductions</u>	<u>Balance 12/31/17</u>	<u>Amount Due within One Year</u>
Series 1978	\$ 29,000	\$ -	\$ (29,000)	\$ -	\$ -
Series 1987	191,000	-	(191,000)	-	-
Series 1990	474,000	-	(474,000)	-	-
Series 1992	301,000	-	(301,000)	-	-
Series 1994	378,000	-	(378,000)	-	-
Series 1998	383,000	-	(383,000)	-	-
Series 1999	212,000	-	(5,500)	206,500	5,500
Series 2003	442,500	-	(442,500)	-	-
Series 2017	-	2,170,000	(130,000)	2,040,000	-
	2,410,500	2,170,000	(2,334,000)	2,246,500	5,500
Bond discount	-	(36,107)	938	(35,169)	1,407
Bonds, net of discount	<u>\$ 2,410,500</u>	<u>\$ 2,133,893</u>	<u>\$ (2,333,062)</u>	<u>\$ 2,211,331</u>	<u>\$ 6,907</u>

**MONROE COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Note 3 – Long-Term Debt, Concluded**

	<u>2018</u>	<u>2017</u>
Loan Payable, Kentucky Infrastructure Authority:		
A loan in the amount of \$15,675,322 was approved for construction of the regional water treatment plant and system improvements. Interest only payments are due semi-annually at a rate of 0.75% until all funds have been disbursed. During construction, 19% of the loan was forgiven.	\$ 12,669,285	\$ 10,328,470
Total loans payable	<u>\$ 12,669,285</u>	<u>\$ 10,328,470</u>

KIA loan payable activities for the years ended December 31, 2018 and 2017 are as follows:

	<u>Balance</u> <u>1/1/2018</u>	<u>Additions</u>	<u>Debt payments</u>	<u>Forgiveness</u>	<u>Balance</u> <u>12/31/2018</u>	<u>Amount Due</u> <u>within One Year</u>
KIA Loan	\$ 10,328,470	\$ 2,340,815	\$ -	\$ -	\$ 12,669,285	\$ -
	<u>\$ 10,328,470</u>	<u>\$ 2,340,815</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,669,285</u>	<u>\$ -</u>

  

	<u>Balance</u> <u>1/1/2017</u>	<u>Additions</u>	<u>Debt payments</u>	<u>Forgiveness</u>	<u>Balance</u> <u>12/31/2017</u>	<u>Amount Due</u> <u>within One Year</u>
KIA Loan	\$ 4,473,329	\$ 7,552,142	\$ -	\$ (1,697,001)	\$ 10,328,470	\$ -
	<u>\$ 4,473,329</u>	<u>\$ 7,552,142</u>	<u>\$ -</u>	<u>\$ (1,697,001)</u>	<u>\$ 10,328,470</u>	<u>\$ -</u>

Capitalization of Interest:

Interest costs incurred during construction are capitalized, net of interest income from proceeds of tax-exempt debt as part of the cost of the related assets of the District. Interest capitalized for the years ended December 31, 2018 and 2017, was \$41,224 and \$69,134, respectively.

Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years. During the current year, the District performed calculations of excess investment earnings on various bonds and at December 31, 2018 does not expect to incur a liability.

**Note 4 – Cash and Investments**

The carrying amount of the District's cash deposits was \$1,919,761 and \$1,579,355 for the years ending December 31, 2018 and 2017, respectively and the bank balances were \$1,923,668 and \$1,606,427. The difference between book and bank balances primarily represents checks that have been issued but have not cleared the bank. The District's deposits included five certificates of deposit totaling approximately \$150,000 for 2018 and 2017 that matured annually. All were with the same financial institution at rates between .79% and 1.76% for the years ending December 31, 2018 and 2017. All of the District's deposits were either insured by FDIC or by collateral pledged by South Central Bank of Monroe County.

**MONROE COUNTY WATER DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Note 5 – Pension Plan**

The District provided a defined contribution plan, as of January 1, 2006, to its employees, who meet certain age and length of service requirements set forth by the Board of Commissioners. The plan is a deferred compensation plan as defined by the IRC 457(b). The District contributes 8% of covered payroll and each employee contributes 4% of their wages. For the years ended December 31, 2018 and 2017, employer contributions were \$41,910 and \$33,877 respectively and employee contributions were \$21,064 and \$16,938, respectively. Voluntary contributions were \$4,250 in 2018 and \$3,710 in 2017. Covered payroll was approximately \$524,000 and \$423,000 for years 2018 and 2017, respectively.

**Note 6 – Commitments**

During fiscal year 2018, the Monroe County Water District placed in service a new regional water treatment facility to supply water to residents of Monroe County and other water districts. The District had secured loan and grant funds in the amount of approximately \$16,000,000 and at December 31, 2018 had approximately \$100,000 still available. The District anticipates drawing these additional funds in 2019 for additional costs to the plant.

**Note 7- Subsequent Events**

Management has evaluated subsequent events through April 26, 2019, the date which the financial statements were available to be issued.

## **Supplemental Information**

**MONROE COUNTY WATER DISTRICT**  
**Statement of Revenues, Expenses and Change**  
**in Net Position – Budget and Actual**  
**For the Year Ended December 31, 2018**

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Operating revenues:</b>			
Water sales	\$ 1,780,650	\$ 2,111,976	\$ 331,326
Penalties and other	66,000	94,382	28,382
Total operating revenues	<u>1,846,650</u>	<u>2,206,358</u>	<u>359,708</u>
<b>Operating expenses:</b>			
Water purchases	166,000	271,531	(105,531)
Salaries and benefits	467,452	747,382	(279,930)
Materials	260,000	170,543	89,457
Contractual	70,000	47,567	22,433
Insurance	100,000	62,808	37,192
Utilities	183,000	153,016	29,984
Depreciation	800,000	611,104	188,896
Other	120,000	157,959	(37,959)
Total operating expenses	<u>2,166,452</u>	<u>2,221,910</u>	<u>(55,458)</u>
Operating income	<u>(319,802)</u>	<u>(15,552)</u>	<u>304,250</u>
<b>Non-operating revenue (expenses):</b>			
Interest income and other	9,000	9,723	723
Rental income	-	20,160	20,160
Interest expense on bonds	(164,000)	(150,815)	13,185
Total non-operating revenue (expenses)	<u>(155,000)</u>	<u>(120,932)</u>	<u>34,068</u>
Income before capital contributions	<u>(474,802)</u>	<u>(136,484)</u>	<u>338,318</u>
<b>Capital contributions</b>			
Grant proceeds	1,732,000	2,000	(1,730,000)
Tap fees	-	26,040	26,040
Total capital contributions	<u>1,732,000</u>	<u>28,040</u>	<u>(1,703,960)</u>
Increase/(Decrease) in net position	<u>\$ 1,257,198</u>	<u>\$ (108,444)</u>	<u>\$ (1,365,642)</u>

**MONROE COUNTY WATER DISTRICT**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2018**

	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<b>Other Programs</b>		
U.S. Environmental Protection Agency		
Capitalization Grants From Clean Water State Revolving Funds	66.458	\$ <u>1,430,994</u>
Total Capitalization Grants From Clean Water State Revolving Funds		<u>1,430,994</u>
Total U.S. Environmental Protection Agency		1,430,994
<b>Total Other Programs</b>		<u>1,430,994</u>
<b>Total Expenditures of Federal Awards</b>		<u>\$ 1,430,994</u>



**MONROE COUNTY WATER DISTRICT**  
**Notes to Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2018**

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Monroe County Water District under programs of the federal government for the year ended December 31, 2018. The information is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Monroe County Water District, it is not intended to and does not present the financial position, changes in net position or cash flows of Monroe County Water District.

2. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting for proprietary funds. Such expenditures are recognized following cost principles contained in the Uniform Guidance, where in certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

3. Indirect Cost Rate

The District has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

**MONROE COUNTY WATER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended December 31, 2018**

**I. SUMMARY OF AUDITORS RESULTS**

**Financial Statements**

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified:

Internal Control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes   X   No
- Significant deficiencies identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes   X   None Reported
- Noncompliance material to financial Statements noted? \_\_\_\_\_ Yes   X   No

**Federal Awards**

Type of auditor's report issued on compliance for major programs: Unmodified

Internal Control over major programs:

- Material weakness(es) identified? \_\_\_\_\_ Yes   X   No
- Significant deficiencies identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes   X   None Reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? \_\_\_\_\_ Yes   X   No

Identification of Major Programs:

<u>Federal Grator/Program Title</u>	<u>CFDA Number</u>
-------------------------------------	--------------------

<b>U. S. Enviromental Protection Agency</b>	
Capitalization Grants From Clean Water State Revolving Funds	66.458

Dollar threshold used to distinguish Between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee?   X   Yes \_\_\_\_\_ No

**MONROE COUNTY WATER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONCLUDED  
For the Year Ended December 31, 2018**

II. FINANCIAL STATEMENTS FINDINGS

Current Year Findings

A. None Reported.

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Current Year Findings

A. None Reported.

**MONROE COUNTY WATER DISTRICT  
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
For the Year Ended December 31, 2018**

FINANCIAL STATEMENTS FINDINGS:

Prior Year Findings: None

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT  
AUDITING STANDARDS

Monroe County Water District  
Tompkinsville, KY

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities, of the Monroe County Water District, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Monroe County Water District's basic financial statements, and have issued our report thereon dated April 26, 2019.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Monroe County Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Monroe County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Monroe County Water District's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Monroe County Water District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Campbell, Myers & Rutledge, PLLC*

Glasgow, KY  
April 26, 2019



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM  
GUIDANCE

Monroe County Water District  
Tompkinsville, KY

**Report on Compliance for Each Major Federal Program**

We have audited the Monroe County Water District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Monroe County Water District's major federal programs for the year ended December 31, 2018. Monroe County Water District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Monroe County Water District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Monroe County Water District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Monroe County Water District's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the Monroe County Water District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

## Report on Internal Control over Compliance

Management of the Monroe County Water District, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Monroe County Water District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Monroe County Water District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Campbell, Myers & Rutledge, PLLC*

Glasgow, KY  
April 26, 2019



